



# Haverhill

Office of the Mayor, Room 100  
Phone: 978-374-2300 Fax: 978-373-7544  
Mayor@cityofhaverhill.com

***For Immediate Release:***

December 5, 2013

## **Mayor Announces Standard & Poor's Increases Haverhill's Bond Rating Up Two Notches**

Today, Mayor James J. Fiorentini announced that the Wall Street bond rating agency, Standard & Poor's Rating Services, has raised the city of Haverhill's bond rating up two notches from 'A+' to 'AA'. Rating adjustments of two notches are rare for the bond rating agencies, normally agencies raise or lower ratings by one notch. The new rating of AA is the highest rating by Standard & Poor's in the city's history.

This is the 4<sup>th</sup> time since Mayor Fiorentini took office in 2004 that Standard & Poor's has raised the city's bond rating. Ten years ago, the city had a bond rating of BBB, which, at that time, was the worst bond rating of any city in the State. The bond rating was bumped up in 2005 to BBB+ and has gone up steadily ever since.

In making the rating, Standard & Poor's indicated:

"The short-term rating reflects our view that Haverhill maintains a very strong ability to pay principal and interest when the notes come due."

Management of the city is one criteria used by Standard & Poor's in evaluating a city's finances. They gave the city the highest possible rating that any city in the country can receive for good management practices. They indicated that the city has:

**"Very strong management conditions:** 'We view the city's management conditions as very strong, with strong financial practices that are likely sustainable.'" [emphasis in original]

A city's bond rating is similar to a credit rating for an individual. A higher bond rating means that the city will have increased access to capital at a lower interest rate. Mayor Fiorentini indicated that the city will now be able to borrow money at a lower rate and over the course of its bonds will save hundreds of thousands of dollars in interest rates.

In increasing the bond rating, Standard & Poor's also favorably noted some of the other cities financial practices. They noted that the city has a 97% collection rate on its receivables, cited the city's policies of



# Haverhill

Office of the Mayor, Room 100  
Phone: 978-374-2300 Fax: 978-373-7544  
Mayor@cityofhaverhill.com

improving its financial reserves, and noted that the city is on target to close the current fiscal year with at least a balanced operation. They cited favorably the enterprise funds that the city set in place a year ago.

Standard & Poor's also indicated that the city's efforts to control health care costs were paying off to decrease costs. Standard & Poor's indicated:

"We believe management has made strides in addressing Haverhill's health care costs."

Mayor Fiorentini called this "fantastic news for the taxpayers of Haverhill. It means that if residents approve any borrowing, the cost to borrow will be less."

The Mayor stated:

"This is wonderful news for our city and its taxpayers. By holding the line on spending, the city has come a long way in the past decade. We started with the largest municipal debt in the history of the State, with a bond rating that was tied for the lowest in the State. Today we have the highest rating in our history.

"This did not happen by accident. We worked hard together as a team to control spending, reduce health care costs, improve reserves, while continuing our commitment to infrastructure repairs when necessary. This improved bond rating would not have happened without a great team effort from our financial management team and our great group of professional city employees and their unions. It is an honor to work with them.

"I want to thank our entire delegation for their support of our City and especially to Representative Dempsey as he continues to provide the support we need to cover our Hale Debt payment. This assistance is a tremendous factor in us receiving the new bond rating.

"I also thank the taxpayers of our city. A key element in improving our rating is that the taxpayers of Haverhill have stayed with the city, and continued to live here, work here and pay taxes here. A stable base of citizens and businesses has been a key element in our improved financial condition."



# Haverhill

Office of the Mayor, Room 100  
Phone: 978-374-2300 Fax: 978-373-7544  
Mayor@cityofhaverhill.com

## Background: Report from Standard and Poor's

### Criteria Links #3, #5, #102

#### Rationale

Standard & Poor's Ratings Services raised its underlying rating on Haverhill, Mass.' long-term general obligation (GO) debt two notches to 'AA' from 'A+' based on our recently released local GO criteria. The outlook is stable.

At the same time, Standard & Poor's assigned its 'SP-1+' short-term rating to Haverhill's \$3.8 million GO bond anticipation notes (BANs) maturing Dec. 12, 2014. We understand management intends to use BAN proceeds to finance various school-related capital projects.

The short-term rating reflects our view that Haverhill maintains a very strong ability to pay principal and interest when the notes come due. In our opinion, the city has a low market risk profile because it maintains strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

In addition, Standard & Poor's assigned its 'AA' long-term rating and issuer credit rating (ICR) to Haverhill's series 2013 state qualified GO bonds based on our GO criteria. The 'AA' long-term rating and ICR reflects the city's underlying credit quality. The bonds are a general obligation full faith and credit pledge of Haverhill. We understand, however, that pursuant to the Massachusetts Qualified Bond Program (Chapter 44A Qualified Bond Act), the state treasurer will pay debt service on the qualified bonds with amounts withheld from Haverhill's state aid. We understand bond proceeds will be used to permanently finance deficit BANs outstanding.

In the past decade, the city issued an aggregate of \$30 million in deficit financing notes pursuant to special legislation enacted by the state legislature providing the Haverhill with the ability to fund its cumulative subsidies to the Hale Hospital. All deficit financing notes issued pursuant to the enabling act are expected to be amortized annually over a 20-year period from their original issue dates. Pay downs of hospital deficit BANs have been made in the amount of about \$11.8 million between fiscal years 2002 and 2013. Haverhill has \$18.2 million remaining in future pay downs, and city management expects the remainder to be retired by June 30,



# Haverhill

Office of the Mayor, Room 100  
Phone: 978-374-2300 Fax: 978-373-7544  
Mayor@cityofhaverhill.com

2023. We note that the city completed a purchase and sale of the hospital in fiscal 2001 and it is no longer a contingent liability to Haverhill.

We base the long-term rating and ICR ratings on the following factors:

- Strong economy, which benefits from participation in the broad and diverse Boston metropolitan statistical area (MSA) economy;
- Weak budgetary flexibility, with projected fiscal 2013 available reserves at 4.8% of expenditures;
- Adequate budgetary performance that will continue to be tested due to higher pension and other postemployment benefit (OPEB) costs;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very strong management conditions, with strong financial policies reflecting our view that the finance department maintains strong, well embedded, and sustainable policies in most areas; and
- A strong debt and contingent liabilities position enhanced by the city's aggressive principal amortization, albeit with sizable pension and OPEB liabilities.

## **Strong economy**

Haverhill, with a population of 61,000, is a residential city 35 miles north of Boston near the New Hampshire border. Local residents have access to job centers from Portsmouth to Boston, as well as the developing northern portion of the Interstate 495 belt. Local employment is concentrated in the education and health care sectors, which together account for approximately 30% of the city's total employment. This is mainly due to the presence of a small liberal arts college and the former city-owned hospital. Haverhill's major employers include DeMoulas (a retail food chain; 1,000 employees), Northern Essex Community College (950), and Dunkin Donuts (a fast food chain; 750).

The city's projected per-capita effective buying income is 105% of the U.S. level. County unemployment averaged 7.1% in 2012, down from 7.7% and 8.7% in 2011 and 2010, respectively. Haverhill's per capita market value was \$81,802 for fiscal 2013. The city's assessed value (AV) was \$4.9 billion, and about 82% of the AV is residential, while 13% is commercial and industrial. The top 10 taxpayers account for 6.5% of AV.



# Haverhill

Office of the Mayor, Room 100  
Phone: 978-374-2300 Fax: 978-373-7544  
Mayor@cityofhaverhill.com

Although Haverhill's taxable AV has decreased by 14.5% since 2009, there are signs in the local economy that suggest current values will hold steady, and possibly improve in the future. Based on our regional forecasts, recent data indicate that median home prices are improving, and that housing starts are gaining traction. Nevertheless, we expect any recovery in housing will be a long process.

## **Adequate budget flexibility**

Historically, Haverhill's financial flexibility has been adequate, in our opinion, with available reserves ranging between 5.0% and 8.5% of expenditures. However, in fiscal 2013 the city established enterprise funds for its water and sewer systems, which resulted in available reserves declining to \$8.1 million or 4.8% of expenditures as funds were transferred to the city's water and sewer operations. Management is working to improve its overall general fund financial flexibility, and indicates it will restore available reserves to adhere to Haverhill's reserve policy of maintaining at least 5% of current general fund revenues.

## **Adequate budgetary performance**

In our opinion, Haverhill's budgetary performance is adequate. For fiscal 2012, the general fund closed with a strong operating surplus of \$1.9 million, equal to 1.2% of operating expenditures. We calculate that total governmental funds also had a slight deficit of 2.4% of total governmental expenditures. The city attributes the positive general fund performance to conservative budgeting for revenues as well as savings across departments.

For fiscal 2013, the city is estimating an additional general fund surplus of \$205,000. The fiscal 2014 budget is structurally balanced, and totals \$163.2 million. Education costs, as well as pension and OPEB costs are Haverhill's largest expenditure drivers. Local taxes represent about 57% of general fund revenues, while state aid accounts for about 34%. Tax collections are strong, in our opinion, with Haverhill averaging a 97% collection rate on a current basis in the past five years. Management indicates revenues and expenditures are on target, and the city expects to close the fiscal year with at least balanced operations.

We believe management has made strides in addressing Haverhill's health care costs. The city negotiated with its unions to lower these costs, and has also dissolved its self-insured plan, moving all eligible Haverhill employees and retirees to a state insurance local government plan. While management has shown a willingness to address health care costs, we believe the city will face budgetary challenges as fixed costs associated with



# Haverhill

Office of the Mayor, Room 100  
Phone: 978-374-2300 Fax: 978-373-7544  
Mayor@cityofhaverhill.com

long-term liabilities continue to rise. As a result, we believe Haverhill's budgetary performance will likely remain adequate in the medium term.

## **Very strong liquidity**

Supporting the city's finances is what we consider strong liquidity, with total government available cash at 12.9% of total governmental fund expenditures and at 270% of debt service. Further enhancing our view of the city's liquidity position is that Haverhill maintains strong access to external liquidity. The city is a regular market participant, having issued bonds frequently in the past several years, including GO bonds and short-term BANs.

## **Very strong management conditions**

We view the city's management conditions as very strong, with strong financial practices that are likely sustainable. Management's revenue and expenditure assumptions are made based on the current conditions, as well as the city's previous years' performance. In addition, city officials perform long-term financial planning for revenues and expenditures over a four-year period. Management performs budget monitoring regularly, with the city auditor tracking revenues and expenditures at the line item level. Haverhill's current budgetary performance is presented to the City Council on a monthly basis. The city performs annual budget amendments, when needed. It has a five-year capital plan that management updates on annual basis. The city has a formal debt management policy for debt service to not exceed 5% of general fund revenues. It also has a formal reserve policy to maintain a fund balance between 5% and 15% of general fund revenues less debt exclusions. However, Haverhill is currently not in accordance with its policy due to the establishment of water and sewer enterprise funds. As a previously noted, city officials indicate reserves will be restored to the minimum level defined in the policy.

## **Strong debt and contingent liability profile**

After this issue, Haverhill will have \$84.5 million of total direct debt outstanding. Included in this calculation is about \$22.8 million of BANs outstanding, of which \$18.2 million are deficit notes outstanding. Overall, the city's total governmental funds debt service is 4.8% of total governmental funds expenditures and net direct debt





# Haverhill

Office of the Mayor, Room 100  
Phone: 978-374-2300 Fax: 978-373-7544  
Mayor@cityofhaverhill.com

is 31.2% of total governmental funds revenue, levels we consider very strong. Bolstering our view of the city's debt profile is that about 70% of principal debt will be retired over 10 years.

In our opinion, the city's pension and OPEB liabilities remain a credit concern, however. We note pension and OPEB costs have risen in the past few years to about 11.4% of total governmental fund expenditures in 2012, and we expect those costs to continue to rise over the medium term. As of Jan. 1, 2010 (the latest actuarial valuation), the estimated unfunded actuarial accrued liability (UAAL) for the city's pension plan was \$284.2 million, with a 51.4% funded ratio, which we consider low. The actuarial valuation assumes an 8.5% investment return rate and a 5.5% annual salary increase.

The UAAL for Haverhill's OPEBs as of July 1, 2012, was an estimated \$323 million. The actuarially determined annual OPEB cost was \$19.8 million for fiscal 2012 (11.2% of general fund expenditures), of which the city paid \$11.1 million, or 56%.

## **Strong Institutional Framework**

We consider the Institutional Framework score for Massachusetts cities as strong. (See the [Institutional Framework score for Massachusetts](#).)

## **Outlook**

The stable outlook reflects Haverhill's very strong management conditions and stable local economy, as well as its access to the Boston MSA, which provides further employment opportunities for local residents. We believe management will make the necessary revenue and expenditure adjustments to maintain at least an adequate budgetary performance, and improve its operating flexibility. The city will continue to face challenges as a result of rising fixed costs due to its long-term liabilities and, as a result, we do not expect to change the rating in the next two years.